



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 28, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **REVIEW OF THE DEPARTMENT OF MENTAL HEALTH'S FEE-FOR-SERVICE PROVIDER REIMBURSEMENT PROCESS**

As part of our responsibility, under the Audit Charter, to ensure County departments that use Information Technology (IT) systems adequately maintain controls over County resources, we reviewed the Department of Mental Health's (DMH or Department) procedures over Fee-For-Service (FFS) claims processing. DMH uses the Integrated System (IS) and Los Angeles Mental Health Plan System (LAMHPS) to process payments to its FFS contract providers of mental health services. DMH pays its FFS contract providers approximately \$12 million a year using the IS and LAMHPS.

Our review included testing controls over payment processing and related components of the IS and LAMHPS, including the payment interface with the County's enterprise-based eCAPS accounting system (eCAPS). We also determined if the procedures and controls were adequate and that only authorized payments were made. We selected DMH's FFS claims process based on the significant amount of payments processed and our preliminary assessment of the related control environment.

During our review, we learned that DMH plans to replace the IS and LAMHPS within the next three years. However, we urge DMH to correct the control weaknesses noted in our review before they implement the new system. In addition, we suggest DMH management to consider the findings and recommendations from our review in developing the new system.

Results of Review

DMH maintains their systems current to meet frequent changes in State and federal requirements. However, DMH needs to improve its controls over several areas of payment processing. Specifically:

- DMH management needs to ensure that at least two separate individuals review and approve batched payment files before they are sent to eCAPS as required by DMH's payment internal control plan and the County Fiscal Manual (CFM). We reviewed 23 electronic payment files sent to eCAPS and noted that 15 (65%) files, consisting of approximately 1,000 claims totaling approximately \$2.3 million, were processed without a second review/approval. In addition, half of these payment files were over \$100,000 and should have had a third review/approval. We also noted that the individual processing/adjusting claims is responsible for reconciling the payments to eCAPS, which violates CFM Section 8.3.3 requirements for separation of duties.

DMH Response – DMH indicated they have taken corrective action to implement our recommendations by changing the payment file review process to include four levels of approval and separating the payment processing and reconciliation duties.

- DMH staff need to monitor and review the eCAPS document catalog and eCAPS exception reports to ensure payments sent to eCAPS are processed properly and errors are corrected timely. We noted DMH staff were not aware of the eCAPS exception reports and do not always cancel rejected payments in eCAPS. We reviewed the eCAPS document catalog on six different days, and noted that DMH staff did not cancel any of the five payments, totaling \$6,900, that were rejected by eCAPS on those days. Although DMH staff had issued new payments, some of these rejected transactions remained in eCAPS for over five months. This increases the risk of duplicate and/or inappropriately processed payments.

DMH Response – Although not indicated in their attached response, DMH management subsequently indicated that they will ensure staff monitor the eCAPS document catalog and eCAPS exception reports to ensure payments are processed properly and errors are corrected timely.

- DMH staff need to update and reconcile payee addresses in the IS, LAMHPS and eCAPS to ensure provider reimbursements are not delayed and/or sent to incorrect addresses. We noted that 33 (70%) of the 47 providers sampled had an incorrect address in at least one of these systems. While we did not note any inappropriate payments during our review, address inconsistencies could result in reimbursement delays and increase the risk of lost or inappropriate payments.

DMH Response – DMH indicated they have taken corrective action to implement the recommendation.

- DMH staff need to properly update the IS with contract end-dates when provider contracts expire to prevent providers from submitting claims for services provided after their contracts end. We noted that three (60%) of the five providers with terminated contracts that we reviewed did not have contract end-dates in the IS for over a year after their contract expired.

DMH Response – DMH indicated they have implemented new processes to ensure that the appropriate contract ending date is reflected in the IS.

- DMH staff need to develop and implement written standards/procedures to guide staff in their work and enforce internal controls. We noted standards/procedures were not in place for various payment processing areas.

DMH Response – DMH indicated they will update or have already updated procedures to clearly identify the required payment processes.

- DMH management need to ensure qualified staff accurately complete the annual Internal Control Certification Program. We noted DMH staff did not complete their most recent Internal Control Certification Program adequately and, as a result, did not detect many of the issues noted in our review.

DMH Response – DMH agreed with our finding and indicated that in the future, they will ensure qualified staff in their Compliance Office accurately complete the Internal Control Certification Program.

While our review of a sample of payments did not disclose any inappropriate payments, the weaknesses noted above could allow inappropriate payments to occur without being detected.

Details of these findings, along with recommendations for corrective action, are included in the Attachment to this report.

Acknowledgment

We discussed our report with DMH management who generally agree with our findings and recommendations and indicated they have already implemented some of the recommendations. The Department's response is attached.

We thank DMH management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MP

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Public Information Office
Audit Committee

DEPARTMENT OF MENTAL HEALTH REVIEW OF FEE-FOR-SERVICE PROVIDER REIMBURSEMENT PROCESS

Background

The Department of Mental Health (DMH or Department) provides mental health services to Medi-Cal beneficiaries and other patients through County and contract clinics. DMH pays its Fee-For-Service (FFS) contract providers for services to Medi-Cal patients through the Department's Integrated System (IS) and Los Angeles Mental Health Plan System (LAMHPS). Contract providers enter their claims into the IS remotely at their offices. The IS and LAMHPS then perform a series of edits before sending the claims to the State Department of Health Services for approval. Once the State approves the claims, DMH personnel extract them from the IS into an Excel spreadsheet to create a file of batched payments that is sent electronically to the County's enterprise-based eCAPS accounting system (eCAPS) to pay the providers. DMH pays the contractors approximately \$12 million a year using the IS and LAMHPS.

DMH management plans to replace the IS and LAMHPS within the next three years. However, we urge DMH to correct the control weaknesses noted in our review before they implement the new system. In addition, we suggest DMH management to consider the findings and recommendations from our review in developing the new system.

Payment Review and Approval

As previously discussed, DMH staff extract State-approved claims from the IS into an Excel spreadsheet to create an electronic file of batched payments for eCAPS to reimburse providers. However, before the payment file is sent to eCAPS, staff review and, if necessary, adjust the individual payment amounts to account for differences between the State-approved rates and the provider's contract rates, or to recover payments on other State denied claims.

County Fiscal Manual (CFM) Section 4.5.5 and DMH's payment internal control plan require applying at least two approvals for payment requests sent to eCAPS, with additional approvals required for larger payments. We noted that DMH staff send some payment files to eCAPS without the required approvals. Specifically, we noted that 15 (65%) of 23 electronic payment files we reviewed, consisting of approximately 1,000 claims and totaling approximately \$2.3 million, were processed without a second review/approval. In addition, half of these electronic payment files were over \$100,000 and should have had a third review/approval.

We also noted that the individual who processes/adjusts claims is also responsible for reconciling them to eCAPS, which is a violation of CFM Section 8.3.3. While we did not identify any inappropriate payments during our review, the lack of payment/approval controls could allow inappropriate payments to occur without being detected.

DMH management should ensure all payment files have at least two levels of review/approval, and that larger payment files have a third approval. DMH management should also segregate the claims and payment processing/reconciliation functions.

After our review, DMH changed their payment process to comply with federal rules for paying their providers. DMH's new process now requires DMH to pay provider claims before the State approves the claims. Since the State can still deny claims after DMH has paid them, DMH staff now have to ensure that payments on State-denied claims are appropriately recovered from future provider payments. This makes the payment review and approval process even more critical.

Recommendations

DMH management:

- 1. Ensure all payment files have at least two levels of review/approval, and larger payment files have a third level approval.**
- 2. Segregate the payment processing and reconciliation functions.**

Electronic Payment Monitoring

As noted earlier, DMH staff extract a file of claims that is sent electronically to eCAPS to pay providers. Payments that are not transmitted accurately and/or not issued by eCAPS are kept in the eCAPS document catalog (i.e., on a holding pattern) and listed on eCAPS exception reports awaiting future adjustment or correction. CFM Section 8.4.2 requires departments to monitor and review exception reports to ensure electronic payments are transmitted and issued accurately. Departments are also required to correct errors timely.

DMH does not monitor or review the eCAPS document catalog and eCAPS exception reports to ensure payments are properly transmitted to and issued by eCAPS. In addition, DMH does not correct errors timely. We reviewed the eCAPS document catalog on six different days and noted staff did not cancel any of the five payments, totaling \$6,900, that were rejected by eCAPS on those days. Although staff had issued new payments for these claims, some of these rejected transactions remained in eCAPS for over five months. This increases the risk of issuing duplicate/inappropriate payments.

DMH staff responsible for investigating/correcting eCAPS payment rejections did not cancel the rejected payments, and were not aware of the CFM requirements to verify that transmissions are successful, or monitor and review exception reports. DMH management should ensure staff monitor and review the eCAPS document catalog and eCAPS exception reports, and correct errors timely.

Recommendations**DMH Management:**

3. Ensure staff monitor and review the eCAPS document catalog and eCAPS exception reports to ensure payments are transmitted and issued correctly.
4. Ensure staff correct errors timely.

Payee Address Discrepancies

DMH does not always update and reconcile payee information in the IS, LAMHPS and eCAPS. As a result, provider reimbursements are sometimes delayed and/or sent to incorrect addresses. Specifically, 33 (70%) of the 47 providers we reviewed had an incorrect address in at least one of these systems. We also noted that six (18%) of the providers with address discrepancies had several returned checks within the past year or had uncashed checks that were over a year old.

As previously mentioned, we did not note any inappropriate payments during our review. However, address inconsistencies could result in reimbursement delays and increase the risk of lost or inappropriate payments. DMH management should ensure staff properly update and reconcile provider address information in the IS, LAMHPS and eCAPS.

Recommendation

5. DMH management ensure staff properly update and reconcile provider address information in the Integrated System, Los Angeles Mental Health Plan System and eCAPS.

Contract End-Dates

CFM Section 8.3.2 requires departments to have controls to prevent the processing of unauthorized transactions, such as payments made on expired contracts. We noted that DMH personnel are not updating the IS with contract end-dates to prevent providers from submitting claims for services provided after their contract expired. We reviewed a sample of five providers with terminated contracts and noted that three (60%) did not have a contract end-date in the IS for over a year after their contract expired.

Although these providers did not submit claims after their contracts expired, DMH management should ensure the System is updated to help prevent providers from processing inappropriate claims.

Recommendation

6. **DMH management ensure staff update the IS with contract-end-dates when provider contracts expire.**

Standards and Procedures

CFM Section 8.2.3 requires departments to have standards and procedures to guide staff in doing their work and address issues such as security management, separation of duties, use of system functions, access to system data, and exception/error resolution.

DMH does not have standards and procedures for monitoring the eCAPS document catalog and exception reports, and correcting errors timely; segregating the payment processing and reconciliation functions; updating and reconciling provider address information; and updating the IS with contract end-dates when provider contracts expire. As a result, personnel do not always perform their job functions as required.

DMH management should develop and implement written standards/procedures for these functions.

Recommendation

7. **DMH management develop and implement written standards/procedures on:**
 - a) **Monitoring the eCAPS document catalog and exception reports, and correcting errors timely.**
 - b) **Segregating payment processing and reconciliation functions.**
 - c) **Updating and reconciling provider address information in the Integrated System, Los Angeles Mental Health Plan System and eCAPS.**
 - d) **Updating the IS with contract end-dates when provider contracts expire.**

County Internal Control Certification Program

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departmental managers in evaluating and improving internal controls in all fiscal areas, and to reduce the risk of error, fraud and other improper activities. Under the ICCP, County departments are required to annually (or biennially) review and evaluate controls in key areas and certify that proper controls are in place or note that action is being taken to correct any deficiencies or weaknesses noted.

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COUNTY OF LOS ANGELES

The non-compliances noted in our review of DMH's FFS provider reimbursement process should have been detected when completing the ICCP. However, DMH's most recent certification indicates that the appropriate controls were in place.

To help DMH managers evaluate and improve internal controls, DMH management should ensure that conscientious, qualified staff independent of the function for all applicable assessable units, accurately complete the ICCP questionnaires.

Recommendation

- 8. DMH management ensure that conscientious, qualified staff, independent of the function for all applicable assessable units, accurately complete the Internal Control Certification Program.**

COUNTY OF LOS ANGELES

MARVIN J. SOUTHARD, D.S.W.
Director

ROBIN KAY, Ph.D.
Chief Deputy Director

RODERICK SHANER, M.D.
Medical Director



ATTACHMENT

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Reply To: (213) 738-4601
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August 9, 2010

Ms. Wendy L. Watanabe
Auditor-Controller
Kenneth Hahn Hall of Administration
500 W. Temple Street, Room 525
Los Angeles, CA 90012-3873

Dear Ms. Watanabe:

**DEPARTMENT OF MENTAL HEALTH FEE-FOR-SERVICE (FFS)
PROVIDER REIMBURSEMENT PROCESS REVIEW**

Attached is the Department of Mental Health's response to the recommendations contained in the Auditor-Controller Audit Division's draft report of its FFS Provider Reimbursement Process. We concur and have initiated corrective actions as outlined in the attached report to address each of the Auditor-Controller's recommendations.

If you have any questions or require additional information, please call me at (213) 738-4601, or your staff may contact Mike Motodani at (213) 738-4705.

Sincerely,

A handwritten signature in cursive script that reads "Robin Kay for".

Marvin J. Southard, D.S.W.
Director of Mental Health

MJS:KN:MM:ac

Attachment

c: Robin Kay, Ph.D.
Margo Morales

"To Enrich Lives Through Effective And Caring Service"

Recommendations

DMH management:

- 1. Ensure all payment files have at least two levels of review/approval, and larger payment files have a third level approval.**

Response: We agree that FFS Phase 2 provider batch payment files undergo a sufficient review and approval process. The calculation of the periodic payment amounts is subject to an automated process which includes edits or checks of valid contract provider, valid contract period, eligible Medi-Cal client, eligible service, adjustments for previously paid claims that have been subsequently denied by the State's Medi-Cal claims processing system, etc. Based upon these processes, a report is generated listing all the claims that have cleared these edits by FFS Phase 2 provider.

Based upon this process, we have determined an interface process to enter the payment transaction into the County's eCAPS disbursement system is both effective and efficient. The overall basis of the interface process is predicated on a batch control philosophy for which the Auditor-Controller utilizes in the acceptance and release of our interface payment request.

We have made the changes to include four levels of approval for each batch that is consistent with the eCAPS approval level requirements.

- 2. Segregate the payment processing and reconciliation functions.**

Response: Agree. Additional staff has been recruited and the payment process and reconciliation process are done by unique staff members.

Recommendations

DMH Management:

3. **Ensure staff monitor and review the eCAPS document catalog and eCAPS exception reports to ensure payments are transmitted and issued correctly.**

Response: Agree. The subsequent business day after interface payment transactions are processed, staff reviews the general ledger to determine if the total payments are in balance with the approved interface batch control amount. Discrepancies are researched for the reason why they were not processed. The underlying problem(s) are corrected and a normal GAX document is prepared and processed for these items.

Per the documents provided by the Audit Division, five (5) items were listed on the document catalog as rejected. Due to implementation of eCAPS, the Department had to revamp its approach and learn how to effectively deal with the required Vendor Codes. As the table shows from the items identified during this review, the Department has made significant improvement in resolving these types of issues timely.

Item #	Rejected	Re-Issued	Days
1	10/16/2008	11/5/2008	20
2	11/20/2008	2/5/2009	77
3	10/16/2008	11/5/2008	20
4	4/14/2009	4/16/2009	2
5	4/14/2009	4/16/2009	2

4. **Ensure staff correct errors timely.**

Response: Agree. During the audit the items in the eCAPS Document Catalog were not discarded timely. This topic is addressed during the Accounting Division's section head staff meetings to ensure items are resolved timely.

Recommendation

- 5. DMH management ensure staff properly update and reconcile provider address information in the Integrated System, Los Angeles Mental Health Provider System and eCAPS.**

Response: Agree. The recent implementation of the County-wide eCAPS and our adoption of the consistent use of eCAPS Vendor Codes has made the payment address field contained in the Integrated System obsolete as it is not used in the payment process. Based on the latest internal coordination efforts, provider payment address changes will be updated in the eCAPS Vendor Table and will be forwarded to the units that maintains the Los Angeles Mental Health Provider System (LAMHPS) and the payment address table used to generate the interface payment files.

The continuous follow-up process on returned warrants has lead to improvement for timely updates to the eCAPS Vendor Code table. This information is passed to the Managed Care Division for update to the LAMHPS. This process allows for the timely use of the correct address code used in the mailing of the payment warrants.

Recommendation

- 6. DMH management ensure staff properly update the IS with contract-end-dates when provider contracts expire.**

Response: Agree. The credentialing, licensing and contract termination dates are maintained in the Los Angeles Mental Health Provider System. The IS is updated with the appropriate ending date: the credentialing ending date, the licensing ending date or the contract ending date. Processes have been implemented that ensure DMH management that the appropriate ending date is reflected in the IS. Providers are not reimbursed for services provided outside of appropriate ending dates.

Recommendation

7. DMH management develop and implement written standards/procedures on:

- a) Monitoring suspense files and exception reports, and correcting errors timely.**

Response: Agree. Procedures will be updated to clearly identify this step.

- b) Segregating payment processing and reconciliation functions.**

Response: Agree. Procedures will be updated to clearly identify this process.

- c) Updating and reconciling provider address information in the Integrated System, Los Angeles Mental Health Provider System and eCAPS.**

Response: Agree. Procedures have been updated to clearly identify this process.

- d) Updating the IS with contract end-dates when provider contracts expire**

Response: Agree. Procedures are in place to enter the FFS Phase 2 contracts' valid contract period and appropriate ending dates.

Procedures have been implemented in that FFS Phase 2 contracts will be in an inactive status in the eCAPS Countywide Contracts Monitoring System 9 months after the termination date.

Recommendation

8. DMH management ensure that conscientious, qualified staff independent of the function for all applicable assessable units, accurately complete the Internal Control Certification Program.

Agree. The periodic ICCP review is conducted through the Department's Compliance Office, which is independent of the Accounting Division.